

VERMONT PENSION INVESTMENT COMMITTEE
November 22, 2011

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2013

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

VPIC Member(s) Absent:

None

VPIC Alternate Members Present:

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

VPIC Alternate Member(s) Absent:

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

Also attending:

Steve Wisloski, Deputy Vermont State Treasurer

Matt Considine, CFA, Director of Investments

Jaye Pershing Johnson, Attorney General's Office

Bill Griffin, Attorney General's Office

Richard Charlton, Christopher Levell, and Doug Moseley, NEPC LLC

Linda Deliduka, VSTRS Alternate Representative

Erin Smith, Commonfund

Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Thursday, November 22, 2011 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval, Announcements, and Minutes of October 27, 2011 Regular Meeting**

The Chairperson, Mr. Rauh, indicated there needed to be an action item added to the agenda, the renewing of the SSgA Russell 2000 contract. Mr. Rauh indicated pursuant to last month's discussion they would try this month to review the Director of Investment's

Report first, but continue to review the Dashboard at the end of the meeting. It was indicated the policy statement and guidelines draft was still being worked on. There were no further changes to the agenda.

Mr. Hooper indicated he will circulate the agenda for the conference he is attending, and that if any member had a topic they would like further information on, Mr. Hooper would endeavor to obtain that additional information. Mr. Rauh indicated there has been an invitation from NEPC for a workshop. Mr. Rauh indicated he would not be attending. Mr. Levell indicated both Mr. Wisloski and Mr. Considine also received an invitation.

On a motion by Mr. Mackey, seconded by Mr. Altemus, the Committee unanimously approved the minutes of the October 27, 2011, Regular Meeting, as submitted.

ITEM 2: Director of Investments Report

Mr. Considine briefly reviewed the downgrade of securities in the PIMCO portfolio and indicated that he requested a cumulative report from PIMCO, and that he would share that information once he receives it.

Mr. Considine reviewed with the Committee the investment manager total return and alpha attribution for the period ending September 30, 2011 and also for the prior 12 months. Mr. Considine indicated the funds that were recently added would not have figures in some of the columns.

Mr. Considine indicated as of the close of market November 14, 2011 the Quality D Liquidity Pool net asset value (NAV) was \$1.0000, the Duration Pool NAV was \$0.9567 and the overall Quality D NAV was \$0.9933, flat with the prior month. Mr. Considine indicated the Liquidity Pool's percentage increased slightly to 84.6% from 84.4% of VPIC's invested amounts, and the Duration Pool decreased slightly to 15.4% from 15.6%, compared to October. Mr. Considine indicated the "underwater" amount decreased slightly to \$2.0 million from \$2.1 million. It was indicated the "breakeven" timeframe decreased to 16.0 months from 16.5 months previously.

Mr. Considine provided the Committee with the Portfolio asset allocation update and assets under management document, which was not available for the mailing of the packets.

(Mr. Gaffney entered the meeting during this agenda item.)

The Committee reviewed the Up-Market/Down-Market Capture Reports. The Committee discussed providing the time series chart for the absolute returns also. The Committee discussed how they would know if the portfolio restructuring was working. The Committee discussed whether a threshold needed to be reached before action was taken by the Committee relative to the portfolio structuring.

In reviewing the allocations by manager Mr. Considine pointed out the recent changes that have occurred.

On a motion by Mr. Mackey, seconded by Ms. Pearce, the Committee unanimously approved the renewal of the SSgA Russell 2000 Index Fund contract through November 30, 2016.

ITEM 3: Discussion Items/Updates

- **Contract Updates**
- **Morgan Stanley Realty**
- **NEPC Manager Watch List Updates: Mellon, GAM**

Ms. Johnson advised they will be working on State Street in the beginning of the year.

The Committee discussed the P&I article relative to Morgan Stanley Realty. The Committee decided to take no action at this time.

Mr. Moseley indicated Mellon and GAM were still on the watch list, but that NEPC was not recommending any action at this time.

ITEM 4: Annual Review of VPIC Standards of Conduct and Conflict of Interest Disclosure Statement

The Committee reviewed the *Standards of Conduct* and *Educational Policy*. Mr. Wisloski indicated at the next meeting they will have the *Standards of Conduct Disclosure for VPIC Members for 2011* that the Committee members will need to complete. Ms. Johnson indicated the Committee already follows the education disclosure at every VPIC meeting. Ms. Pearce indicated they are still working on the rule making relative to the policies. Ms. Wisloski indicated the Teachers' Board's standards are rules, and that he will look into the other two systems.

(Ms. Pearce left the meeting at this time.)

The Committee discussed the budget for VPIC, and Mr. Wisloski indicated he will research whether travel to meetings is included in that or whether there is a mileage stipend. The Committee discussed how to obtain more education for the VPIC members.

(Mr. Jeffrey left the meeting at this time.)

ITEM 5: Annual Review of VPIC Operating Policies

Ms. Johnson reviewed the *Operational Policy* with the Committee. There was a lengthy discussion concerning Section B of Article 6 Contracts, specifically VPIC Member Contact with Vendors. Mr. Mackey indicated he did not agree with the phrasing of that

section. There was a discussion whether changing the word “limit” to “coordinate” would achieve the same goal.

Mr. Mackey made a motion to delete Section B under Article 6 Contracts. There was no second to the motion. The motion failed.

Mr. Hooper made a motion, seconded by Mr. Altemus, to propose the change of the word “limit” to “coordinate” in Section B under Article 6 Contracts.

(Ms. Pearce returned to the meeting at this time.)

The Committee further discussed the proposed change, and possible other changes.

Mr. Hooper made a motion to table his motion concerning Section B under Article 6 Contracts until the next meeting. Hearing no disagreement, the Chairperson, Mr. Rauh agreed to put this item on next month’s agenda.

(A recess was taken from 10:25 a.m. to 10:35 a.m.)

(Mr. Griffin left the meeting.)

ITEM 6: Annual Review of VPIC Proxy Voting Guidelines

Mr. Considine reviewed with the Committee the information he has received relative to the votes, totally over 29,000 votes. The consensus of the Committee was to narrow this down to maybe 20 or 30 categories. Mr. Considine indicated he would continue to work on this item and report back to the Committee.

ITEM 7: Securities Lending Discussion/Action

The Committee discussed the Vanguard and Swensen article concerning securities lending. The Committee discussed the current securities lending program administered by State Street will be shut down when JP Morgan becomes the new custodian as of June 30, 2012. The Committee discussed whether it should restart the program with JP Morgan, and what the guidelines and structure of the program would be if they did.

(Mr. Jeffrey returned to the meeting during this agenda item.)

(Ms. Paul and Ms. Pearce left the meeting during this agenda item.)

Mr. Wisloski indicated he would obtain more information about the “underwater” amount. Mr. Rauh indicated this was just an initial discussion, and that they would continue the discussion.

(A luncheon recess was taken from 11:50 a.m. to 12:45 p.m.)

(Ms. Deliduka, Mr. Jeffrey, Ms. Johnson, and Ms. Pearce were not present at this time.)

(Ms. Smith entered the meeting at this time.)

ITEM 8: NEPC Q3 Performance Review

- **NEPC Single Strategy Hedge Fund Shadow Portfolio**
- **Review October Flash Report**

Mr. Moseley and Mr. Levell presented the Q3 report. Mr. Moseley briefly went through the Market Review. Mr. Moseley reviewed the information for the Vermont State Teachers' Retirement System in detail. NEPC answered all questions posed by the Committee.

(Ms. Johnson, Mr. Jeffrey and Ms. Pearce returned to the meeting during this agenda item.)

There was a discussion about the Select-and-Ultimate method and the single equivalent rate.

Mr. Rauh indicated on page 69, of the *Investment Performance Analysis*, that under Domestic Fixed Income they have decided to delete the word "Core" and to replace it with the word "Diversified". Mr. Moseley indicated they would correct that in the next report.

Mr. Moseley reviewed the October 2011 flash report with the Committee. Mr. Moseley indicated the three composites improved, and were up to 5.4%. Mr. Moseley indicated the year-to-date returns were as follows: 2.6% for VSTRS, 2.9% for VSERS, 2.9% for VMERS and 2.9% for BERS, in all cases gross of fees. There was a discussion about manager returns.

The single strategy hedge fund shadow portfolio was discussed, and it was decided it was not a useful tool. VPIC decided to discontinue it, and decided to move to a more detailed review of the underlying hedge fund strategies used by its current hedge fund-of-fund managers.

(Mr. Altemus left the meeting at this time.)

ITEM 9: Economic and Financial Market Dashboard

Ms. Johnson briefly informed the Committee about the Supreme Court decision relative to foreign investors. The Chairperson, Mr. Rauh, briefly indicated to the Committee some of the items for the December and January agenda.

(Mr. Johannesen and Mr. Levell left the meeting at this time.)

The Committee discussed the dashboard positives and negatives for the last year. The Committee discussed the Economic and Financial Market Dashboard and set its 12-month forward expectation for U.S. GDP at 1.0%, and for CPI at 2.5%, the same as last month.

ITEM 10: Other or New Business

Ms. Pearce updated the Committee that she testified before the Joint Fiscal Committee about the Teachers' funding.

ITEM 11: Adjournment

The Committee adjourned at 2:30 p.m.

Respectfully submitted,

Monica Chiren, Clerk